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Thinking About Organization Strategically

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Thinking About Organization Strategically

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A Systems Approach to
Strategy, Structure and Staffing



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Thinking About Organization Strategically

A Systems Approach to Strategy, Structure and Staffing

“Thinking about organization strategically.” That is the phrase I used to tell clients why they should attend the Global Organization Design conference in Toronto this August. Those who did attend that very successful gathering of 140 experts from all over the world now understand what I was getting at.

This paper is intended to shed light for others. It shows how strategy, structure and staffing are linked in a systematic way, and together hold the keys to success.

Stratified Systems Principles of Global Organization Design

A core tenet of Global Organization Design¹ is that there exist natural levels in an accountability hierarchy so that each succeeding level can add value, which legitimizes the authority of each level of management. Each higher stratum implies a higher order of complexity in the managerial role, in order to resolve either-or issues from lower levels. Elliott Jaques defined these levels in terms of the time span of discretion needed to handle the complexity.

These levels or strata correspond to naturally occurring levels of cognitive capability or complexity of information processing that are a part of human nature, are requisite in the sense of being required by the natural order of things.² These levels or strata are illustrated in *Exhibit 1* below.

The important thing to keep in mind is that moving from one level or stratum to the next implies a very significant shift. Elliott Jaques described it as analogous to a state change, like ice transforming into water or water into steam.

This aspect of Global of Organization Design is sometimes known as stratified systems theory.

Organizations can be defined by the level of top leadership required. A Stratum V company is an essentially self-contained business unit where the leadership challenge is to continually redefine the business model so as to be successful in a 5 to 10 year time horizon. A typical Young Presidents’ Organization (YPO) company is Stratum V. Rogers Wireless or CIBC Mortgages would be Canadian examples.

Each succeeding level can add value

Organizations can be defined by the level of top leadership required.

EXHIBIT 1

Stratum	Time-span Range	Typical Roles
VIII	50 years plus	Super corporation CEO (Examples: GE, Exxon)
VII	20 – 50 years	International Corporation CEO
VI	10 – 20 years	Group Vice President, International Corporation
V	5 – 10 years	Business Unit President, CEO of mid-sized company
IV	2 – 5 years	General Manager, large plant manager, Vice President
III	1 – 2 years	Line manager, Department Director, senior professional
II	3 – 12 months	Front-line manager, Supervisor
I	up to 3 months	Front-line employee, lead hand

A Stratum V unit is a good building block for understanding larger, more complex enterprises.

Stratum VI companies are usually aggregations of Stratum V business units. They often have strategic staff groups at Stratum V in Finance, IT, Business Development and Human Resources. They may operate globally in multiple international markets seeking position in a changing geo-political environment. Norske and Nexfor would be Canadian pulp and paper industry examples. Large government departments may also be Stratum VI organizations. In Canada, Stratum VI deputy minister roles are often supported by Stratum V assistant deputy ministers with operating and staff responsibilities.

Stratum VII organizations are usually global with a portfolio of Stratum VI business groups. Complexity and scale afford higher-level staff units and sometimes specialized service units. The BMO Financial and the Royal Bank are Canadian financial services examples, and Dofasco in steel and INCO in mining are Canadian Stratum VII companies.

A Stratum VIII organization describes the world's largest commercial enterprises. General Electric is thought to be a Stratum VIII company.

Within Stratum V business units are found Stratum IV general managers and there may also be Stratum IV functional specialists in finance, IT etc., who may or may not have staffs. General managers may be functional, as in operations, sales, and engineering. They may also generally manage more or less self-contained small business units. Stratum IV managers are supported by middle management at Stratum III and front-line managers at Stratum II.

It should also be noted that there are many smaller enterprises in the economy at Stratum III and IV. Indeed many of today's larger businesses started out at low strata, driven by young entrepreneurs who lifted their companies to greater scale and higher levels.

Strategy

Strategy is about creating a competitive advantage that leads to profitable growth or sustained change. Whether a global company competing in an international marketplace or a not-for-profit supporting a big-city community, the status quo is not an answer. Both need aggressive strategies that imply preemptive change, either growth or new positioning.

Jack Welch says, "When it comes to strategy, ponder less and do more....Strategy means making clear-cut choices on how to compete.... If they're headed in the right direction and are broad enough, strategies don't really need to change that often."³

The Australian consultant, Julian Fairfield, argues that "Strategy is a horizon condition,"⁴ in the sense that it is a moving target and is constantly evolving as the world changes and competition acts. Fairfield notes that the strategy of a business depends on the level of leadership.

Stratum VI organizations, for example, need strategy that addresses industry structure in the Michael Porter sense, assessing the relative strength of suppliers, buyers, new entrants and substitutes as well as competitors, to understand the competitive dynamics of the industry. Strategy entails identifying positions which can be sustained and relentlessly pursuing them.⁵

Stratum V organizations, including the building block business unit components of higher stratum corporations, need strategies to reinvent the business in a 5 to 10 year time horizon. Fairfield suggests the BCG growth/share matrix as a way of identifying star, cash cow, problem child and dog products or business components in defining Stratum V strategy.

There are, of course, other approaches to strategic management⁶, but Fairfield's enduring point is that the approach to strategy varies according to the level of organization. Indeed, he notes that "There is always a need to keep run-

ning up and down the hierarchy to search for strategic leverage.” This is because “there are different ‘felt truths’ of success at each level.”⁷

Structure

Organization design itself is a matter of strategy. A Stratum VI or VII corporation needs to define the portfolio of Stratum V business units, headed often by business unit presidents. A smaller diversified Stratum V corporation will often do the same with a portfolio of Stratum IV business units headed by general managers. This is the horizontal articulation of structure as strategy.

There is a vertical dimension, too, of structure as strategy. Fairfield’s unique contribution is articulating the use of level or stratum as a competitive weapon. He notes that “the dominant player in a marketplace will often be operating at one level higher than its competitors in its key competitive functions and be highly profitable.” And further, “Parity [of levels] is insufficient for above average profitability.” He cites experience where shifting the Quality function up one level dropped defect rates from 1–2% to 1 in a million; Administration Overheads dropped 30–40%, and labour and machine productivity achieved a 100–200% improvement. One specific example involved upgrading Stratum II mortgage sales personnel to Stratum III to raise sales from 2 per week to 5 per week and the average mortgage written from \$80,000 to \$130,000.⁸

Another important aspect to be considered is that creating a new role or function requires capability one level above a role than it takes to sustain it. For example, if several business components are to be brought together to make up a new Stratum V business unit, leadership from a Stratum VI executive will be required to get the unit organized and up and running, and once it is it can be handed off to a Stratum V executive to manage.

Looking ahead at how it chooses to compete, a business can anticipate the probable number of business unit leaders at Stratum IV or V, and the probable number of supporting managers needed in functional areas. For the larger corporation, anticipation can also be made of level VI general and specialized executives.

Staffing

Implied in the foregoing is a staffing policy requiring roles to be filled with leaders who have appropriate capacity. In other words, Stratum V roles are to be filled with Stratum V capable executives. If, when the time comes, a Stratum V role is filled by a leader who is, at that time, only Stratum IV capable, that leader will manage the role down to what he can handle, converting a needed Stratum V role into Stratum IV.

It may be desirable in some cases to recruit outside to get leaders at the requisite level, but generally speaking an organization needs to plan to develop internal talent for future leadership. This is desirable for both motivational and cultural reasons.

Making this happen requires a robust talent management system that has the following components:⁹

- Assessment of cognitive capability, in terms of the Stratum the individual has the capability to fill. This should be assessed by the individual’s manager and manager-once-removed on a regular basis and making these assessments requires skills and knowledge on the part of managers that take time and practice to accumulate. Frequently companies seek expert assessments to get the process rolling.
- Insight into personal style, in terms of unconscious motivating patterns like the nine styles of the enneagram: reformer, supporter, achiever, individualist, thinker, guardian, generalist, leader and mediator¹⁰; and

Staffing roles with leaders who have appropriate capacity

The dominant player operating at one level higher [is] highly profitable.

Identification of high potential future executives needs to take place very early

preferred management styles of the Adizes' producer, administrator, entrepreneur and integrator¹¹. This information is important for the individual's self knowledge to support his development process.

- Skilled knowledge and experience, in terms of formal education and training, on-the-job experience, both inside and outside the company, and in terms of the managerial practices of setting context, recruiting, team development, assigning tasks, coaching subordinates, evaluating performance, developing subordinates, recommending deselection, assessing potential of subordinates-once-removed, mentoring them and assisting them in developing their careers.
- Demonstrated effectiveness in each of the jobs held in the company as indicated by the performance appraisal record.
- Commitment and valuing managerial work.
- Opinion of the individual's manager and manager-once-removed on long-term potential.
- Developmental planning to ensure that skilled knowledge and experience keeps pace with growing cognitive capability.

Attention to this assessment process and its accompanying development actions, including career assignment, succession planning, and executive education, is a necessary support to ensuring job-ready leadership to fill emerging roles. A long-term perspective is important because the development of leaders is a long-term process.¹²

High potential employees are those who will be capable of general management, or equivalent Stratum IV functional roles, before they are 43 years old. This means they will need to make the turn from front-line manager to manager of managers by 27 years of age.

Of these, future top executives will need to make the turn to business unit head (or Stratum V functional equivalent) between about age 30 and 47. For these, the turn from manager of managers to general manager will need to take place before the age of 35.

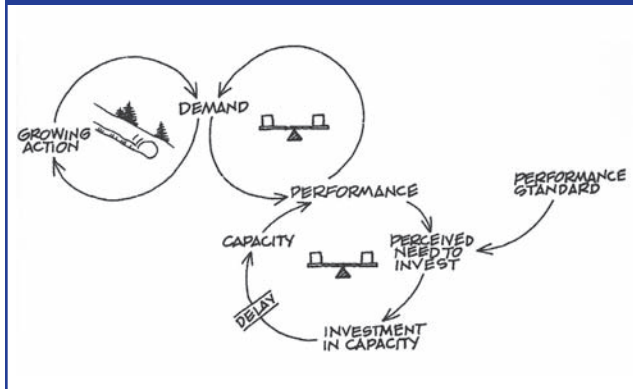
This means that the identification of high potential future executives needs to take place very early, within the first five years of their employment.

System Dynamics Principles of Global Organization Design

Strategy, structure and staffing need to be addressed as an interlocking system so that as an organization defines its strategies for succeeding in the future it designs structures to enable execution and has available the talent to fill the roles to lead it.

Building on MIT's groundbreaking work in systems dynamics, Peter Senge used the system archetype in *Exhibit 2* to show how aggressive growth strategies can be brought to their knees by underinvestment in capacity¹³. In the diagram, the growth strategy is illustrated by a snowball rolling downhill, suggesting exponential expansion. This is counterbalanced by the stabilizing influence of demand, illustrated by the balancing arm. In turn, demand is shaped by another stabilizing element, the investment in capacity to maintain performance. The three interlocking processes describe the way growth, demand and capacity relate in a systematic way over time. The key system dynamic here is the delay between the decision to invest in capacity and the time that capacity comes onstream to reflect performance. Senge argues that this diagram essentially describes the spectacular growth and flameout of the People Express Airline in the 1980s.¹⁴

EXHIBIT 2: GROWTH & UNDERINVESTMENT



At People Express, the growth vision of low-cost air fares was brought down by underinvestment in the capacity the airline needed to handle the demand that emerged.

Senge describes this archetype as follows:

“Growth approaches a limit which can be eliminated or pushed into the future if the firm, or individual, invests in additional ‘capacity’. But the investment must be aggressive and sufficiently rapid to forestall reduced growth, or else it will never get made. Oftentimes, key goals or performance standards are lowered to justify underinvestment. When this happens, there is a self-fulfilling prophecy where lower goals lead to lower expectations, which are then borne out by poor performance caused by underinvestment.”¹⁵

From this Senge derives the management principle:

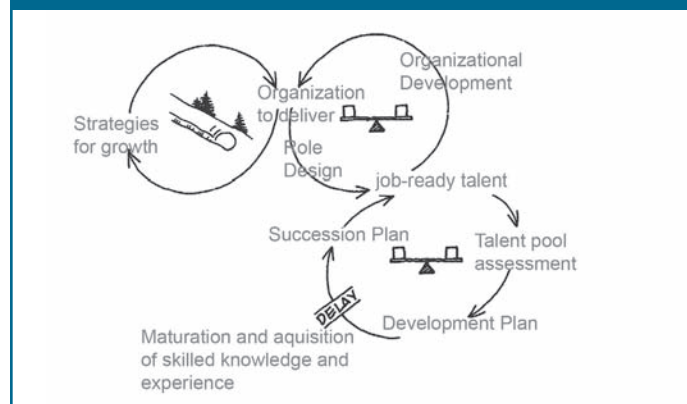
“If there is a genuine potential for growth, build capacity in advance of demand, as a strategy for creating demand. Hold the vision, especially as regards assessing key performance standards and evaluating whether capacity to meet potential demand is adequate.”¹⁶

Growth and underinvestment is a good model for thinking about organization strategically. *Exhibit 3* links strategy, structure

and staffing. Here a runaway business strategy for growth is restrained by an organization structure to deliver on it. The structure in turn is restrained by the availability of the right people at the right time to staff it. Jim Collins, in *Good to Great*,¹⁷ talks about the importance of getting the right people on the bus, sitting in the right seats. Thinking about organization strategically means defining the “seats” in the right numbers at the right level, and ensuring a flow of talent in the future capable of filling those seats.

The keys are a clear long-term vision of strategy, anticipation of the managerial and professional roles needed to execute the strat-

EXHIBIT 3: SYSTEM DYNAMICS OF STRATEGY, STRUCTURE AND STAFFING



egy, and a process of assessment and development of human resources in the organizations so that the talent is ready as needed. Once again, a limiting factor is the delay inherent in growing people: they mature only with time and need time to acquire the skilled knowledge and experience.

As general principles, this all makes sense. What is new and different here is that the specific, science-based principles of Global Organization Design allow us to be explicit and quantitative in each of the strategy, structure and staffing dimensions.

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- ³ Jack Welch and Suzy Welch, *Winning*, New York, Harper Collins, 2005, p. 165 – 171.
- ⁴ Julian Fairfield, *levels theory provides unique insight into strategy and why 'levels shifting' change management is so demanding*, Toronto, Global Organization Design Conference, 2005.
- ⁵ Michael E. Porter, *Competitive Strategy*, New York, Free Press, 1980.
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- ⁷ Julian Fairfield, *op. cit.*
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- ⁹ Donald. V. Fowke, *Global Talent Management*, Toronto, New Management Network, 2005.
- ¹⁰ Helen Palmer, *The Enneagram in Love and Work: Understanding your Intimate & Business Relationships*, San Francisco, HarperCollins, 1995.
- ¹¹ Ichak Adizes, *Corporate Lifecycles: How and Why Corporations Grow and Die and What to Do About It*. Englewood Cliffs NJ, Prentice Hall, 1988.
- ¹² See also Ram Charan, Stephen Drotter, James Noel, *The Leadership Pipeline*, San Francisco, Jossey-Bass, 2001.
- ¹³ Peter Senge, *The Fifth Discipline: the Art and Practice of the Learning Organization*, Doubleday, New York, 1990, p.389.
- ¹⁴ *Ibid.*, p. 127 ff.
- ¹⁵ *Ibid.*, pp. 389-90.
- ¹⁶ *Ibid.*
- ¹⁷ Jim Collins, *Good to Great*, New York, Harper Collins, 2001.



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OUR PURPOSE

The Global Organization Design Society is a not-for-profit corporation registered in Ontario, Canada to promote the following objective:

The establishment and operation of a world-wide society of academics, business users and consultants interested in science-based management to improve organizational effectiveness for the purposes of:

Promoting among existing users increased awareness, understanding and skilled knowledge in applying concepts of Levels of Work Complexity, Levels of Human Capability, Accountability, and other concepts included in Requisite Organization and/or Stratified Systems Theory.

Promoting among potential users of the methods, appreciation of the variety of uses and benefits of science-based management, and access to resources.

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